

Iowa's Linked Deposit Loans

The Iowa Department of Natural Resources and the Iowa Finance Authority have developed clean water state revolving fund-linked deposit loan programs for manure management and soil erosion control. Working with the soil and water conservation districts in the state to identify farmers and others with eligible needs, the state uses its Clean Water State Revolving Loan Funds (SRF) to reduce interest rates for landowners that are making changes to address these nonpoint sources.

How the Programs Work

Farmers and other landowners work with their regular banks to acquire approval for a loan to pay for manure management or soil erosion control systems. The bank underwrites and signs the loan document with the borrower which eliminates default risk for the state SRF program as all risk is taken by the bank. To reduce the interest rate for the landowners, the state SRF deposits the principal amount of the loan into an account set up for this program at the bank. With the principal in hand, the bank is limited to charging no more than 3% to the borrower. As the loan is repaid by the borrower, the state SRF withdraws from the account the amount of principal repaid so that the SRF funds remaining at the bank equals the outstanding principal on the loan. The state deposit earns no interest, so the bank is provided with funds at no cost.

Partnerships Lead to Success

The SRF Linked Deposit Programs for Manure Management and Soil Erosion Control are successful due to the involvement of partners throughout the state. Iowa's 100 Soil and Water Conservation Districts are often the first point of contact for farmers and landowners who use these programs. U.S. Department of Agriculture's Natural Resources Conservation Service (NRCS) staff assist in designing best practices. Also, the programs are marketed by the Department of Agriculture and Land Stewardship's Division of Soil Conservation staff.

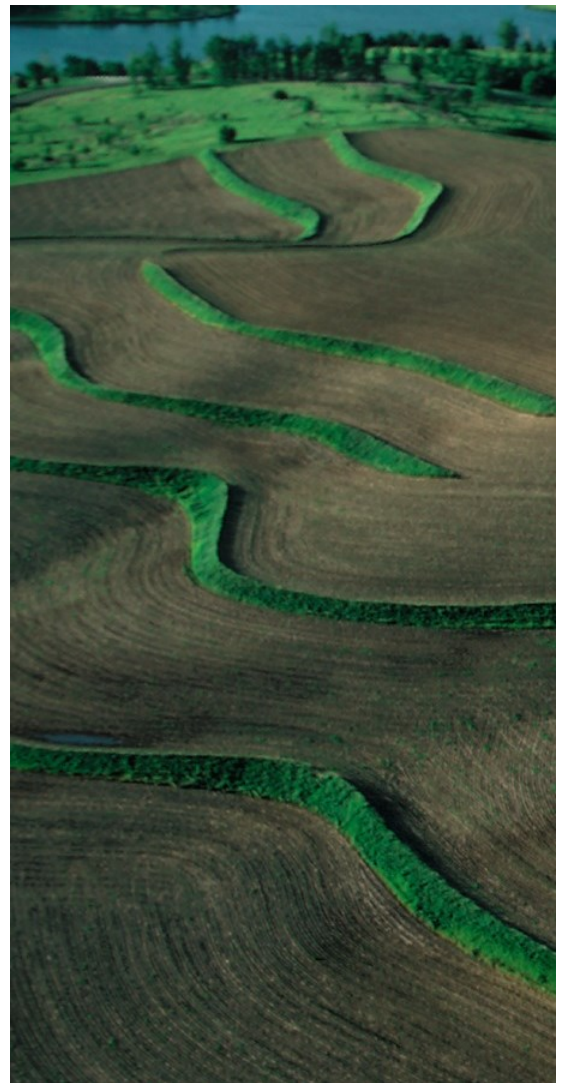


Photo by USDA NRCS

CWSRF: A Flexible Tool for Advancing Clean Water



E C O S

This factsheet was developed by the Environmental Council of the States. It is one of ten factsheets on how states have used flexibility in the Clean Water State Revolving Loan Funds to pursue innovative projects. To view the other factsheets and information on other state projects visit www.ecos.org.

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The program has over 400 lending institutions signed up as participation lenders. They use their own loan documents and underwriting criteria to approve loans for the projects. Also, the linked deposit loans can be used with other state and federal grant programs like NRCS' Environmental Quality Incentives Program (EQIP). Through these partnerships the linked deposit programs use existing organizations and existing relationships, both technical and financial, to implement an SRF program.

Multiple Benefits

- Assists landowners in addressing nonpoint source pollution.
- Helps landowners improve efficiency.
- Eliminates default risk for state SRF program.
- Caps the interest rate for borrowers at 3%.
- Reduces costs as state SRF does not have to file mortgages or other security instruments on the debt.

Size and Replicability

The state SRF program currently has almost \$60 million deposited in financial institutions throughout the state for these programs. Since the first deposit in 2005, over \$92 million has been deposited in banks throughout the state under these programs.

Linked deposit programs are used in other states and Iowa has worked with other states to create similar programs. Beyond SRFs, Iowa's State Treasurer has a linked deposit program for small businesses.

Success Stories

A certified organic dairy farmer with 665 acres of cropland, financed a new 1.5 million gallon manure pit to capture all cattle waste and store it until conditions are right to use it as fertilizer on his crops. He says this new system is much more efficient plus there is no run-off. So it makes running the dairy operation easier while also reducing the potential for nutrients to reach any waterways.

Near Fairfield, Iowa a farmer was able to cut his planting time in half by creating terraces on 85 acres where he had trouble holding grassed waterways. To afford this, he applied for an SRF linked deposit loan through the Local Water Protection Program. The funds were used to construct earthen ridges or terraces to hold water back, slow runoff and allow nutrients and pesticides to filter out before entering streams. It also creates more efficient pathways for his machinery to move in the field. He says it is "exceptional" and it makes the farm better for the environment and the next generation.

More Information

For more information on these programs visit:

www.iowasrf.com/program/other_water_quality_programs/

or contact Patti Cale-Finnegan at patti.cale-finnegan@dnr.iowa.gov or 515-725-0498.

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